

KEY ELEMENTS OF MARKET ORIENTATION ON MALAYSIAN SMEs PERFORMANCE

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ABSTRACT

Malaysian Small Medium Enterprises (SMEs) are vital components of the country's economic development. This paper assessed the relationship between market orientation critical success factors and Malaysian SMEs performance. Data were collected via mail survey employing the simple random sampling procedure. A total of 140 SMEs responses to this study. The findings revealed mix relationship among the components of market orientation critical success factors in SMEs performance. Two factors, specifically, customers focus and market dissemination was found to have significant relationships with SMEs performance. On the other hand, the other factors, namely market intelligence and responsiveness did not indicate significant influence on the SMEs performance. Consequently, the result of this study has significant impact to SMEs owners in forwarding organizational excellence. For SMEs to contribute significantly to the realization of the long term business and industrial competitiveness of the country, they need to focus on any activities that related to the market orientation critical success factors.

Keywords: Market Orientation; Small Medium Enterprise (SME); Performance; Malaysia.

1. INTRODUCTION

SMEs in Malaysia has evolved to become key supplier and service provider to large corporation, inclusive of multinational and transnational corporation. Most of these SMEs are in the service sector, particularly in retail, restaurant and wholesale businesses. SMEs successfully contributed 56 percent of employment creation and 19 percent for national export (National SME Development Council, 2010). Furthermore, as reported in the SMEs Annual Report 2009/2010, SMEs sector contributes 31 percent of real gross domestic product (GDP). At the same time, there are wide recognitions in the literature about the challenges and barriers facing Malaysian SMEs to face arising hurdles from globalization, liberalization and extensive

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organizational, institutional and technological changes (Hall, 2002; Moha, 1999; Wang, 2003). One of the most challenging issues for SMEs to confront in any industries is economic turbulence. Recession, rising fuel prices and other raw material are some of the major factors impacting SMEs businesses (2011; "SME urge domestic," 2008).

Although research on SMEs in Malaysia has attracted an increase in attention due to the importance of SMEs in contributing to the economy, it has been argued that studies on SME in Malaysia are still limited in scope and fragmented in nature (Hashim & Ahmad, 2005). The focus is mainly on reporting and describing the general profile of SMEs such as owners' characteristics, problems and the assistance provided by the government to the SMEs. Research on SMEs has neglected the applicability of modern management theory to SMEs. This is probably due to the argument that small enterprises are more difficult to study since there is a lack of a clear structure and procedures recorded; hence, offering a wide area of topics to investigate (Curran & Blackburn, 2001). Thus, it is proposed that future research on SMEs should consider various management disciplines as 'there have been limited attempts to study SMEs from this perspective in the Malaysian context (Hashim & Ahmad, 2005).

One of the important management areas, which are still limited research on it, is marketing management particularly in SMEs sector. Studies have identified organizations that are oriented towards market orientation have been recognized to influence on organisational performance and indirectly enhance competitive advantage. Similarly, numerous studies have linked marketing oriented organisation as an approach that can contribute to organisational performance (Jaworski & Kohli, 1993; Narver & Slater, 1990; Pelham & Wilson, 1996; Pitt, Caruana, & Berthon, 1996; Slater & Narver, 1994a; SME Corp, 2010). However, despite the importance of these sources of competitive advantage, there are limited studies that examine these management strategies together particularly in the context of small medium sized enterprises. Although, many studies have found a relationship between market orientation and the performance of business, but what is not clear is whether marketing concept is used by the small business owners. Moreover, Cannon (1991) noted that there is currently insufficient knowledge about marketing in small business and Kotler and Keller (2009) highlighted that marketing knowledge only limited to decisions and issues relating to product, price promotion and distribution.

Most of the empirical studies about market orientation were conducted in large-scale firms and ignored SMEs in developed and developing countries like Malaysia for instance. According to Carson (1985), small firms have limited resources, lack of specialist expertise and limited impact on the marketplace as compared to large companies. Therefore, an absence in this scope had catalyzed researchers to initiate an investigation about the relationship between market orientation practices and their contribution to organizational performance among Malaysian SMEs. This is especially of particular concern for Malaysian small to medium sized companies, whereby many weaknesses has been identified. All these weaknesses indicate that further research need to be investigated in the management area in this type of organization in this country.

In view of the research issues that are presented above, this study addresses the extent and nature of market orientation practices of SMEs in Malaysia and their relationship with SMEs

performance. The main objective of this research is to investigate the relationship between market orientation and organizational performance of SMEs in Malaysia business context.

2. MARKET ORIENTATION

The degree to which the marketing concept has been adopted and implemented in an organization can be referred to as “marketing orientation”. Parasuraman (1981) described the degree of market orientation of an organization as the extent to which it has embraced the corporate philosophy of customer satisfaction known as the marketing concept. Trustrum (1989) describes a marketing orientation as the operational implementation of the marketing functions in the context of the marketing concept. An organization is said to be marketing oriented, if it adopts the marketing concept and plans and implements marketing functions that are appropriate to the prevailing circumstances.

The notion of market orientation can be found in 1950’s when Drucker, the management Guru argued that customer should be the foundation of an organization and the very reason for its existence (Drucker 1954 as cited in Webster 1988). Drucker’s argument was support by Levitt (1960) who asserted that customer need must be a firm’ core business purpose. Other authors subsequently extended the core of this idea into what eventually came to be known as the marketing concept (Hooley, Lynch, & Shepherd, 1990; Kohli & Jaworski, 1990; Lawton & Parasuraman, 1980; McNamara, 1972; Narver & Slater, 1990). Since then, numerous academics and practitioners have argued that this customer-oriented business philosophy been made an essential part of everyday management practice (Kotler & Levy, 1969; Shapiro, 1988; Webster Jr., 1988).

Market orientation has become an increasingly popular research theme and has received a great deal of attention from scholars for a decade (Deshpande & Webster 1989; Greenley, 1995; Hunt & Lambe, 2000; Hurley & Hult, 1998; Kohli & Jaworski, 1990; Narver & Slater, 1990; Ruekert, 1992; Slater & Narver, 2000; Webster Jr., 1988). The resurgence of interest in this topic is because market orientation is perceived to be the implementation of the marketing concept (Kohli and Jaworski, 1990). Moreover, it does provide the fundamental philosophy of successful strategic marketing. Market orientation is needed in implementing marketing concept. Some researchers like Narver and Slater, (1990); Slater and Narver (1994b); Hunt and Morgan (1995) agreed that market orientation can provide a solid fundamental for sustainable competitive advantage for a company which in turn will accelerate the company performance. Whitehall, Lukas, & Doyle (2003) exposed that superior market orientation would lead to superior performance whereby most of the top companies are customer oriented. Similar to marketing concept, customer has always been put as the main goal of market orientation (Deshpande & Webster 1989; Heiens, 2000; Payne, 1988). This has been agreed upon by (Deshpande, Farley, & Webster Jr., 1993) where customer and market orientation are viewed as synonymous.

A term such as “market-oriented”, “customer-focused”, “market-driven”, and “customer-centric” are used interchangeably in the literature review (Deshpande & Farley, 1999). The term “market orientation” differs from the traditional notion of “marketing orientation” in several ways. Firstly, market orientation is no longer a concern of the marketing department

but rather of all function departments in an organization. Each of them is focusing on creating superior value for customers. Secondly, an organization that is market oriented does not view the marketing department as being more important than other departments (Day, 1994; Shapiro, 1988; Webster Jr., 1994).

2.1. Market Orientation and SMEs Performance

Market orientation is an important internal influence and has been shown to have a positive relationship to organizational performance. Market orientation refers to the organization wide generation, dissemination, and responsiveness to market intelligence (Kohli and Jaworski, 1990). Market orientation is viewed as a source of sustainable competitive advantage for an organization in that it helps to create superior value for customers (Narver and Slater, 1990; Slater and Narver, 1994b; Slater and Narver, 2000). Therefore, stressing on market orientation can be expected to result in higher business performance of an organization. Many scholars found a positive link between the extent of market orientation and business performance (Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Slater and Narver, 1994; Orvis, 1996; Deshpande and Farley, 1999; Slater and Narver, 2000). In fact, recent studies indicated that market orientation still has a positive impact on performance particularly large organizations (Mokhtar & Yusoff, 2007; Mokhtar, Yusoff, & Arshad, 2009).

Other marketing authorities such as Kotler (2002); Levitt (1960) and Webster (1988) also addressed the notion that a business that increases its market orientation will improve its market performance. Slater and Narver (2000) found in their research that market orientation is positively related to business profitability, measured by return on investment (ROI). Kohli and Jaworski (1990) suggested that market orientation enhances the performance of an organization in terms of return (ROI), profits, sales volume, market share and sales growth.

The market orientation concept does not apply to consumer or industrial product companies, but also to service companies. Orvis (1996) investigated the influence of market orientation on retail store performance in the United State and the result support the positive association between high measures of market orientation and high level of retail store performance. Lancaster and Velden (2004) support that a high level of intelligence generation and dissemination (i.e. Understanding present and future needs of customers) and performing activities to develop products and services that meet customers wants and need will lead to higher levels of performance. Appiah-Adu and Satyendra (1998) found a positive and significant association between market orientation and performance among UK SMEs. Finding by Pelham and Wilson (1996) reinforce similar finding which suggests a customer orientation (i.e. Market orientation) is significantly and positively related to business performance across a range of US SMEs.

3. HYPOTHESIS DEVELOPMENT

It has been purported that for a company to achieve continuous above average performance, it must create a sustainable superior value for its customer (Porter, 1985). Empirical investigation among Japanese regarding customer orientation and performance relationship concluded

positive findings (Deshpande et al., 1993). Moreover, similar positive relationship result was found in US SMEs (Balakrishnan, 1996) as well as UK (Appiah-Adu and Satyendra, 1998). From the founding of the studies mentioned, it is possible to suggest that customer orientation leads to improvement in business performance. Henceforth, the study proposes to assess the relationship between customer focus and organizational performance among Malaysian SMEs:

H1: Customer focus is positively associated with organizational performance.

Because both prior conceptual models and exploratory empirical analyses of the market orientation construct suggest that it should encompass the three conceptually distinct components of intelligence generation, dissemination, and responsiveness (Kohli and Jaworski, 1993). Therefore, this study desires to tap the linkages between market intelligence and organizational performance. Intelligence generation is important to the organization because the activities gathered information not only on the customer needs but also from outside the organization system such as competitors, technology, government regulation and other environmental forces (Kohli & Jaworski, 1990; Mokhtar et al., 2009). Thus, this input may enhance the SME's performance. Thus, this study proposes that:

H2: Market intelligence is positively associated with organizational performance.

Shapiro (1988) mentioned that other areas of the business besides marketing participate in all three aspects of market orientation. Therefore, the importance and application of the function are considerably wider than just the marketing department. Market orientation entails (i) one or more departments engaging in activities geared toward developing an understanding of customer's current and future needs and the factors affecting them, (ii) sharing of this understanding across departments, and (iii) the various departments engaging in activities designed to meet selected customer needs (Kohli and Jaworski, 1990).

The multi-functional of market orientation also means that the communication, interpretation, and dissemination of marketing information must occur between and across several functional areas of the organization. Hence, market orientation has been categorized into three categories: (i) senior management factor, (ii) interdepartmental dynamics, (iii) organizational systems (Kohli and Jaworski, 1990). Appiah-Adu and Satyendra (1998) consider SMEs by relatively simple organizational structures and more cohesive culture, hence limiting the coordinating benefits of an effective customer orientation concept. Moreover, SMEs are typified by a limited range of the products and customers, thus minimizing the requirement for formal procedures developed to gather and process customer and market information for decision making. Conversely, these attributes may enhance the ability of smaller firms to fully exploit a customer oriented culture (Pelham and Wilson, 1996). The different practices by SMEs regarding market dissemination theories had catalyze researcher to find out the association between market dissemination and performance. Based on the above justification, the study proposes that:

H3: Market dissemination is positively associated with organizational performance.

Kohli, *et.al.*, (1993) defined responsiveness as action taken in response to intelligence that is generated and disseminated. Organisation need to respond to market needs after the dissemination of such information across departments and individuals within the market-oriented organization (Mokhtar et al., 2009). The concern focuses on the degree to which marketplace needs play a prominent role in the assessment of market segment and development of marketing programs. Action on the basis of market intelligence captures the speed and coordination with which the marketing programs are implemented. Thus, it is proposed that:

H4: Responsiveness is positively associated with organizational performance.

4. METHOD

The sampling frame for this study was gained specifically from the SMEs related web site because it provides current and updated information besides easier to access. All information access via SME Corp website for year 2010 and total SMEs population in Malaysia is 17,164. Based on the total population, using the table of sample size provided Krejcie and Morgan (1970), 382 minimum sample size are required. However, in order to reduce the non response problem, the sample size was increased to 500 (Hair, Anderson, Tatham, & Black, 1998). The individual chosen to answer the questionnaire was assumed to have specific knowledge in market orientation. Since the unit of analysis for this study is at the organizational level, the Chief Executive Officer (CEO) or Marketing Managers were the persons targeted for the study due to their knowledge. This will also ensure that they do not encounter difficulties while answering the questionnaire. The survey method strategy was employed to collect data with regard to market orientation and organizational performance.

This study employed the mail questionnaire survey approach as a method of data collection. The data for this research was collected from managers and top management of SMEs in Malaysia. Sampling method used for this research is simple random sampling where the information about all registered SMEs was accessed via SME Corp web site. Five hundred questionnaires were mailed to SMEs throughout Malaysia. A total of 140 questionnaires was returned representing a response rate of 28 percent. Only one of them is unusable as they were incomplete returned questionnaires.

There are two constructs variables involved in this study: market orientation and organizational performance. Market orientation as the independent construct consists of four dimensions: customer focus, market intelligence, market dissemination and responsiveness while organizational performance remains unidimensional. The variables were tested using six-point item rating scale. According to Sekaran (2003) item rating scale measure the distance between two points on the scale which help the researcher to compute means and standard deviations of the response on the variables. This research does not introduce the midpoint neutral point to avoid the respondents from taking an easy choice in answering with the neutral point which requires little effort and easy justification. The reason for not using this midpoint is based on the arguments by Krosnick (1991) that respondents have two types of behavior: survey optimizing and survey satisfying. Survey optimizing is when “the cognitive tasks required

of survey respondents are typically quite burdensome of people attempt to be fully diligent". Accordingly, survey satisfying is the respondents' behaviors, which "sometimes look for ways to avoid expanding this effort while maintaining the appearance of answering responsibly". As specified by Krosnick and Fabrigar (1997), including midpoint could lead to decrease in measurement quality.

Scaling for market orientation introduced by Kohli and Jaworski (1990) known as MARKOR with some illustrative examples by Li and Cheng (2005) were adopted and adapted for the study to measure three dimensions of the market orientations variables. The three dimensions derived were: (1) generation of market intelligence, (2) dissemination of information across the organization and (3) organization wide responsiveness toward the information. It measures customer orientation and coordinated marketing in the context of information perspectives. In addition to Kohli and Jaworski dimensions on market orientation that emphasize on market intelligence and information perspectives, the customer focus dimension employed for this study also were adopted and adapted from Gray et al., (1998) and Narver and Slater (1990).

Organisational performance constructs measures the degree of perceived performance of the organisation over the last three years. It was measured with four items adapted from past studies measurement (Kaplan & Norton, 1992; Narver & Slater, 1990; Singh, 2004; Vorhies & Harker, 2000) using a six-point item scale. The pilot study was not carried out in this study since the measurements of the study were adopted from past established studies. Furthermore, as the organisation was employed as the unit of analysis for this study and the individual involved as respondents were the top management of the organization, it was very challenging to obtain data for the study.

Descriptive analysis was carried out to acquire a feel of the data to all variables of this study, which took into account the mean, standard deviation and percentage of all the variables of interest. Correlation and regression analysis were used to identify an association among the major variables under study.

5. RESULTS

Although there are various types of reliability tests, the most common method used in many studies is internal consistency reliability (Litwin, 1995). Cronbach's alpha is the most common test employed in previous studies to test the internal consistency reliability. In this study, Cronbach's alpha coefficient test was carried out to measure the inter-item or internal consistency reliability. It is specified that an instrument which scores around 0.60 is considered to have an average reliability standard; while a score of 0.70 and above indicates that the instrument possesses a high reliability standard (Hair et al., 1998; Nunally, 1967; Sekaran, 2003).

Table 1 below summarises the result of the reliability test.

Table 1: Reliability Analysis of Market Orientation and Organisational Performance

Construct	Cronbach Alpha Coefficient
Customer Focus	0.83
Market Intelligence	0.64
Market Dissemination	0.75
Responsiveness	0.67
Organisational Performance	0.75
Overall Market Orientation	0.89

The result of the reliability test for all the dimensions of market orientation, organizational performance and overall market orientation shows that the Cronbach alpha coefficients were above 0.60 and 0.70. Thus, this indicated that the measures possess an average to a high reliability standard.

Correlation analysis is used to identify the association among the major variables under study. Specifically, the analysis identifies the strength and direction of the linear relationship between two variables. For this study, correlation analysis was used to determine the presence of multicollinearity, which is a condition that needs to be checked before using multiple regression analysis. Besides scanning through the bivariate correlations of all the independent variables to identify multicollinearity problem, another approach is to look at the variance inflated factor (VIF) and tolerance value. The general rule of cutoff points is that the VIF value should not exceed 10. On the other hand, the tolerance value should not be less than 0.10 (Hair et al., 1998; Pallant, 2005). In this study, all the values of VIF did not exceed 10 and all the tolerance values were greater than 0.10. Table 2 and 3 present the results of the multiple regression analysis.

Multiple regression analysis was conducted to determine the relationship between several market orientation variables with a single organizational performance. The variables were subject to satisfying the underlying assumptions of multiple regression analysis before the regression test is carried out (Hair et al., 1998). Results indicate that the model jointly explained 33.9 percent of the variance of organization performance. The model ($F = 20.567$; sign. $F = 0.000$) was significant at the 5 percent level.

Regression coefficients show that among the four market orientation variables, customer focus score is the highest ($\beta = 0.159$) followed by market dissemination ($\beta = 0.125$), market intelligence ($\beta = 0.097$) and responsiveness ($\beta = 0.009$). Two of the predictor variables were found to have statistically significant associations with organizational performance. The two variables were customer focus and market dissemination at the 0.05 significance levels. Customer focus contributes 29.9 percent and market dissemination explains 22.1 percent of the variance in SME's performance. The result also indicates a positive relationship; hence the higher the market orientation practices, the higher the level of SME's performance.

Table 2: Multiple Regression Result between Market Orientation and Performance

R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig. F
.582	.339	.319	.4247	17.288	.000

Table 3: Multiple Regression Result between Market Orientation and Performance

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.191	.198		11.056	.000
Customer Focus	.159	.005	.299	3.205	.002**
Market Intelligence	.097	.067	.161	1.440	.152
Market Dissemination	.125	.059	.211	2.130	.035*
Responsiveness	.009	.075	.014	.123	.902

Note: Level of significance: *.05; **.01

6. DISCUSSION

This research intended to test the relationship between market orientation and organizational performance. Market orientation consists of four dimensions which are customer focus, market intelligence, market dissemination and responsiveness. Organizational performance stands alone with unidimensional as the dependent variable in this study. Four hypotheses were postulated for each market orientation dimension in relation to organizational performance. The result of multiple regression analysis shows that overall market orientation variables explains 33.9 percent ($R^2=0.379$) of the variance in organizational performance. Among the four construct in market orientations variables, customer focus (H1) is the most significant followed by market dissemination (H3) in explaining the relationship towards organizational performance.

This portrays that when Malaysian SMEs emphasized customer focus (activities in the organization that focus on obtaining information and customer satisfaction and other forces that may influence their needs), and market dissemination it will lead to higher organizational performance. The results are consistent with several studies (Jaworski & Kohli, 1993; Kara, Spillan, & DeShields Jr., 2005; Loubser, 2000; Mokhtar & Yusoff, 2007) that indicate the positive impact of market orientation dimensions on firm performance. As mentioned by Kohli and Jaworski (1990), market intelligence must be communicated and disseminated throughout the organization in both formal and informal ways. Effective dissemination of market intelligence is seen as a vital act since it provides a shared basis for collaborative efforts by different departments. This ideas is in line with the importance of inter-functional coordination within the organization recommended by Shapiro (1988), Narver and Slater (1990) and Narver and Slater (1994).

Similarly, a study on UK SMEs also signified that customer focus is positively correlated to organizational performance (Singh & Ranchhod, 2004). For over the years, both academic scholars and marketing managers have contended that a business that improved its customer orientation will enhance its market performance (e.g. Deshpande, *et.al.*, 1993 and Levitt, 1960). Furthermore, Huck (1991) found technical knowledge and customer relationship are the most important competencies that SMEs need to have for their success.

Surprisingly this study reveals that market intelligence and responsiveness were not significantly related to organizational performance among SMEs in Malaysia. This is in line with other studies that reported the non-significant results on the relationship between market orientation dimensions and firm performance (Appiah-Adu, 1998; Dawes, 2000). Other studies such as Langerak, Hultink & Robben (2004) revealed that market orientation was not significantly related to new product performance and overall organisational performance. The possible explanation for a non - significant relationship may be due to the small size nature of SMEs. The small size nature of a firm normally does not require many departments and a specialized marketing intelligence department as some department may probably perform multi-tasking functions. At the same time, communications among the departments and employees is not a major problem due to the small size nature of the firm. Furthermore SMEs are flexible in responding to the task required by other functions.

This study found that SMEs are still lacking on the aspect of intelligence and responsiveness. Appiah-Adu and Satyendra (1998) consider SMEs by relatively simple organizational structures and more cohesive culture, hence limiting the coordinating benefits of an effective customer orientation concept. Moreover, SMEs is typified by a limited range of products and customers, thus minimizing the requirement for formal procedures developed to gather and process customer and market information for decision making. Conversely, these attributes may enhance the ability of smaller firms to fully exploit a customer oriented culture (Pelham and Wilson, 1996).

7. CONCLUSION

This study has several implications for SMEs practitioners specifically and other parties in general such as academia, government and other related agencies. The result of this study has significant impact to SMEs owners in forwarding organizational excellence. This study suggests that the overall market orientation has a significant relationship with organizational performance. Therefore, all SMEs need to focus on any activities that related to market orientation as they would benefit in terms of performance. Organizations that listen and understand customer needs are in a better position in the market (Shapiro, 1988; Slater and Narver, 1994; Webster, 1988).

The result is also consistent with previous literature, which suggested that positive association exist between market orientation and organizational performance among Malaysian manufacturing firms (Mokhtar & Yusoff, 2007, 2009). Therefore, Malaysian firms, government as well as academicians should note that excellent organizational performance derived from customer focus, market intelligence, market dissemination and responsiveness.

This study is subject to several unavoidable limitations that might distort the findings. Among the limitations was the sampling frame used for the sampling selection process. Data regarding population was purely obtained from the SMEs directory via the internet and some SMEs were not officially registered with recognized authorities like SME Corp. Another limitation, while conducting this study was the low response rate from the Malaysian SMEs.

Future research needs to overcome those mentioned limitations for better research findings. First of all, researcher suggests future analysis to multiply the sample size as this factor will give significant result beside enhance the generalisability. Perhaps next research can adapt to other countries or on a regional basis so that any differences or similarities can further contribute to the body of knowledge. Source of information about a sample frame should not rely on one source solely, but future research must diversify the source of information. This action will express research finding in slightly different ways.

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